

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 3333-01  
Bill No.: HB 1253  
Subject: Taxation and Revenue - General & Income  
Type: Original  
Date: January 28, 2002

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
General Revenue	\$0	(\$44,170 to Unknown)	\$0 to (Unknown)
<b>Total Estimated Net Effect on <u>All</u> State Funds*</b>	<b>\$0</b>	<b>(\$44,170 to UNKNOWN)</b>	<b>\$0 to (UNKNOWN)</b>

\*The overall fiscal impact of this proposal is expected to exceed (\$100,000) annually.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
None			
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 5 pages.

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## **FISCAL ANALYSIS**

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### **ASSUMPTION**

Officials from the **Office of Administration, Budget and Planning (BAP)** did not respond to our fiscal note request. However, in a response to a similar prior proposal, BAP states that according to the state demographer there are approximately 627,000 Missourians below the federal poverty level. BAP was unable to find any empirical basis to estimate the number of taxpayers that would donate personal property to people below the poverty level or the value of the personal property that they would donate. The fiscal impact of this proposal is unknown.

Officials of the **Department of Revenue (DOR)** state this proposal authorizes a tax credit for gifts of personal property made to a person whose income is below the federal poverty level. This tax credit is not to exceed \$10,000 per gift, and the taxpayers total credit per taxable year is not to exceed \$50,000. The tax credit is non-refundable but can be carried over the next four succeeding tax years. The Department of Social Services will provide procedures for determining if a person is classified as having income below the poverty level and how a taxpayer can claim a tax credit. This tax credit is effective January 1, 2003.

DOR staff state the number of taxpayers eligible for this tax credit is unknown at this time. The Division of Taxation would need one temporary tax season employee (\$7.50 an hour) for every 37,500 credits claimed each year. One Tax Processing Tech I would be needed for every 30,000 income tax errors generated by this legislation and one Tax Processing Tech I would be needed for every 12,000 corporate tax errors generated. One Tax Processing Tech I would also be needed for every 3,000 additional pieces of correspondence generated by this legislation.

DOR assumes this legislation would require modifications to the individual and corporate income tax systems. The Division of Taxation estimates these modifications, including programming changes, would require 1,471 hours, a cost of \$49,838. Modifications to tax returns and schedules would be completed with existing resources. State Data Center charges would increase due to the additional storage and fields to be captured. Funding in the amount of \$9,570 would be requested for implementation costs.

In similar legislation the DOR estimated that the modifications, including programming changes, would require 692 hours of overtime at a cost of \$20,808. DOR staff also stated that similar State Data Center charges would increase due to the additional storage and fields to be captured in the amount of \$4,503. Therefore **Oversight**, for purposes of this fiscal note, has reflected the costs to the DOR based on previous responses to similar legislation. The cost per hour for programming has been increased while the hours of programming is assumed to remain the same. Oversight will increase the State Data Center charges to \$9,570. Oversight assumes the DOR will request any FTE needed through the budget process.

ASSUMPTION (continued)

Officials of the **Office of the Secretary of State (SOS)** state this bill creates an income tax credit for certain gifts of personal property to persons with an income below poverty level. This bill would require the Department of Social Services and the Department of Revenue to promulgate rules for this tax credit as well as to determine if a person is classified as having an income below the federal poverty level. Based on experience with other divisions, the rules, regulation and forms issued by the two departments could require as many as approximately 32 pages in the Code of State Regulations. For any given rule, roughly half again as many pages are published in the Missouri Register as in the Code because cost statements, fiscal notes and the like are not repeated in Code. These costs are estimated. The estimated cost of a page in the Missouri Register is \$23.00. The estimated cost of a page in the Code of State Regulations is \$27.00. The actual costs could be more or less than the numbers given. The impact of this legislation in future years is unknown and depends upon the frequency and length of rules filed, amended, rescinded and withdrawn. However, rules based on federal poverty line can be expected to be amended annually as the federal poverty line changes. These annual amendments could require as many as approximately 16 pages in the Code of State Regulations and 24 pages in the Missouri Register.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriations process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials of the **Department of Social Services (DOS)** state that it is unknown how many people would participate in this program. Also, it is uncertain if DOS would be asked to determine eligibility only for those individuals who had received such a gift or people would apply to DOS for proof of their eligibility so that they could solicit such donations. If DOS had to determine income eligibility for a new group of people, the cost would be very high. The process of taking applications, verifying income, issuing documentation, and periodically re-determining eligibility is very staff intensive. DOS believes that establishing a whole system of income reporting and verification would duplicate the functions of the Department of Revenue. DOS suggests that a person's income tax return would better serve as income verification. Therefore, DOS believes the fiscal impact would be zero to a negative unknown cost expected to exceed \$100,000.

According to the U.S. Census Bureau there are approximately 682,616 Missourians below the poverty level. Since the amount of people who would donate and the amount of the donations is unknown, **Oversight** will show the revenue loss from this proposal as \$0 to unknown, expected to exceed \$100,000 annually.

**This proposal would result in a decrease in Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
<b>GENERAL REVENUE FUND</b>			
<u>Loss to General Revenue Fund</u>			
Tax credit for donations of personal property	\$0	\$0 to (Unknown)	\$0 to (Unknown)
<u>Cost - Department of Revenue</u>			
Reprogramming costs	\$0	(\$44,170)	\$0
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND*</b>	<b><u>\$0</u></b>	<b><u>(\$44,170 to UNKNOWN)</u></b>	<b><u>\$0 to UNKNOWN)</u></b>

**\*The overall fiscal impact of this proposal is expected to exceed (\$100,000) annually.**

<u>FISCAL IMPACT - Local Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
	\$0	\$0	\$0

#### FISCAL IMPACT - Small Business

Small businesses would be expected to be fiscally impacted to the extent that they would donate personal property to eligible individuals and claim the tax credit.

#### DESCRIPTION


This bill authorizes a state income tax credit for taxpayers who make gifts of personal property to persons whose income is below the federal poverty level. The tax credit for each gift by a taxpayer is limited to \$10,000 per occurrence and to \$50,000 per tax year. The credit is not refundable but excesses may be carried over to the next 4 succeeding tax years.

The Department of Social Services will provide a method for identifying persons whose incomes are below federal poverty level and verifying the credit amount.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration  
Budget and Planning  
Department of Revenue  
Secretary of State  
Department of Social Services

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Acting Director

January 28, 2002